

**First Federal**

32

October 3, 2000

Manager, Dissemination Branch
Information Management and Services Division
Office of Thrift Supervision
1700 G Street, N.W.
Washington, DC 20552

Dear Sir:

This letter is in response to your notice dated August 4, 2000 in the Federal Register proposing to amend the Thrift Financial Report (TFR) to collect data from OTS-regulated thrift institutions on high loan-to-value and subprime loans, trust operations and holding companies with the intended benefit noted as being strengthening of OTS's supervisory capability. First Federal of Charleston, SC is a \$1.5 billion thrift in a multiple holding company structure. Although management does not comment on all proposals from the OTS, we certainly believe this proposal merits a response.

With any recordkeeping/reporting request, one would expect benefit to be derived from the request. Someone would have to explain to us the benefit that the regulatory industry would gain from the additional reporting burden on thousands of companies when the trends trying to be measured could be spotted by adding a couple of additional questions to the TFR such as the percentage of assets held in this type of lending. Then perhaps additional information such as that requested on the new TFR could be obtained in the form of a monthly or weekly survey. Thus you would collect the data from only the institutions that may need closer supervision.

Comments that follow deal principally with the section in the proposal on Nontraditional Lending.

High Loan-to-Value Loans: The text of the proposal is a bit misleading in that the actual draft TFR (page 21) clearly indicates that the only loans considered are those secured by 1-4 family residential properties, *without PMI or government guarantee*. The narrative does not indicate this; perhaps you assumed the reader would infer this to be the case in discussions about loans from the standpoint of supervisory limits. We believe that if you proceed with the data that it should be treated as confidential for a period of time. Some companies will not be able to completely program the change prior to March 31, 2001, particularly as this is only a proposal at present. Another observation we have is that you do not mention the bank call report being modified to

collect the same data. We would remind you of the mandate you have to try to agree on data collected with the goal being a uniform bank/thrift call report in the future.

Sub-prime loans: In the text of the discussion on sub-prime loans, you noted that the FDIC has estimated approximately 150 institutions have significant investment in the subprime lending business, with 24 estimated to be savings associations. This would lead us to the observation that the regulators are increasing the data collection burden on the entire industry in an effort to collect data on 150 lenders with significant investments in sub-prime loans. We strongly agree that a percentage of assets or loan test should again be required with only those institutions over a certain percentage in sub-prime loans required to complete the remaining data. Typically most savings institutions and banks have some modest amount of sub-prime loans; however, a typical bank or thrift will limit their investments in these types of loans due to risk.

We will first respond to the general question of the way subprime loans are to be defined. We agree that there may be temporary difficulties that make a loan to a borrower meet the definition of subprime from time to time; however, these loans should not be categorized as sub-prime. The program approach would appear to be the only workable approach as most companies probably have lending programs or products with likely characteristics of sub-prime lending. Our lending staff believes that the market's definition for sub-prime single family mortgage loans would be loans over 100% loan to value, with 2-3 separate thirty day accounts in 12 months with credit scores less than 600. Consumer sub-prime loans are a bit more difficult to define. In any event, definitions vary depending on the each company.

The remainder of the questions are answered if we felt necessary to comment.

- 1) Only those held in a segregated portfolio should be reported.
- 2) We estimate that less than 5% of our loans are subprime - if we look at a program approach, although many of these loans would not meet your definition as they are probably at the upper spectrum of sub-prime.
- 3) Our criteria for subprime is based on a program approach. We currently offer a manufactured housing program and a broker-origated second/first mortgage program which we closely monitor. See comment in general comment above.
- 4) Factors that are best indicators of higher risk of default; a (no) b (yes) c (yes) d (yes) e (greater than 100%) f(1) generic scores are used f(2) the score cutoff differs by loan to value of the loan g (yes) h(no because we do a lot of first time homebuyers loans with no credit history; however, ,may be more of a factor on consumer loans)

- 3 -

October 3, 2000

- 5) The definition of subprime should not be identical for all types of loans. It should be different for consumer from mortgage. The problem with subprime identification, however, may be the lack of detail retained on computerized systems after the loan is disbursed and payments begin.
- 6) We are able to determine from our computerized records when loans have PMI credit support. However, in all cases, other types of support may not be easily obtained.
- 7) We do not believe over time that subprime will evolve that much more nor will the traditional lending standards drop.
- 8) This is difficult to answer in that the broader the description of subprime loans, the more likely that CRA programs would fall within the definition. It may not be the intent of the regulatory agencies to subject these loans to the same level of scrutiny; however, the definitions and credit risk to the industry may be the same as subprime.
- 9) There should be a *de minimus* level of subprime loans below which reporting is not required. Perhaps 10% of loans.
- 10) Smaller savings associations should not be treated differently.
- 11) The occasional booking of a subprime loan should not be construed as requiring future monitoring. Generally institutions know their particular programs that have customers who most often meet the definition.
- 12) Yes, the data should be treated as confidential

We also wish to comment on the definition of mortgage loans. If the proposed change is made, it must clearly be communicated so that institutions and examination staff understand how they are to report loans on the TFR and how they are to monitor those same loans for HOLA investment limits. Also, one comment on Junior Liens: it is likely that loans would be reported as they are categorized at inception of the loan. Over time, an institution's second lien may actually become first lien without the institution monitoring and changing its computerized records.

We wish to make one additional comment relative to all of the remaining items to be collected and/or potentially revealed to the public. Please do not add any additional reporting burden to the thrift industry that those institutions regulated by other banking agencies are not supplying in their call data. Please understand that such activity will continue to place OTS-regulated institutions at a competitive disadvantage and may have the unintended result of causing more institutions to seek other types of charters to alleviate regulatory burden. Although we certainly understand that monitoring is required to assist you in examining the status of the industry, there are

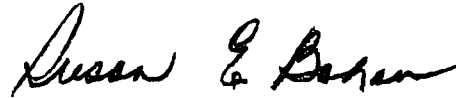
- 4 -

October 3, 2000

certainly costs associated with the collection of data that is inconsistent between regulatory agencies.

If you wish to discuss the comments included above, please contact the undersigned at (843) 529-5601.

Sincerely,

A handwritten signature in cursive script, reading "Susan E. Baham".

Susan E. Baham
Senior Vice President